

ATTACHMENT 1

**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA**

Application for Order Authorizing California-American Water Company (U-210-W) to Purchase Bellflower Municipal Water System's Assets and for Related Approvals.

Application No. 18-09-013

**SETTLEMENT AGREEMENT OF CALIFORNIA-AMERICAN WATER COMPANY
(U-210-W) AND THE PUBLIC ADVOCATES OFFICE**

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Dated: November 22, 2021

**SETTLEMENT AGREEMENT OF CALIFORNIA-AMERICAN WATER COMPANY
(U-210-W) AND THE PUBLIC ADVOCATES OFFICE**

1. GENERAL STATEMENT

1.1 Pursuant to Article 12 of the Rules of Practice and Procedure of the California Public Utilities Commission (“Commission”), California-American Water Company (“California American Water”) and the Public Advocates Office at the California Public Utilities Commission (“Cal Advocates”) (referred to individually as a “Party” and collectively as “the Settling Parties”), to avoid the expense and uncertainty of further litigating the matters in dispute between them before the Commission, agree on the terms of this settlement agreement (“Settlement Agreement”), which the Parties will submit for review, consideration, and approval by the Commission.

2. PARTIES TO THE PROCEEDING

2.1 California American Water, a California corporation, is a Class A public utility water and wastewater service provider regulated by the Commission. It provides utility services in parts of San Diego, Los Angeles, Ventura, Monterey, Sonoma, Sacramento, Yolo, Merced, and Placer counties, serving approximately 680,000 people in 50 communities. It is an experienced water system operator with an operations center that is near the Bellflower Municipal Water System’s (“Bellflower Municipal”) operations.

2.2 Cal Advocates is an independent organization within the Commission that advocates on behalf of utility ratepayers and subscribers. Cal Advocates has its own independent operating budget, and its Director is appointed by the Governor. Its statutory mission is to obtain the lowest possible rate for service consistent with reliable and safe service levels and the state’s policy goals.

2.3 The City of Bellflower (“City”) is located in southeast Los Angeles County. The City owns Bellflower Municipal, which currently provides water service to approximately 1,827 connections within the City. The City is a party to this proceeding, attended settlement negotiations, and does not object to the provisions of this Settlement Agreement. However, the City, Cal Advocates, and California American Water take the position that the City is not a required signatory of the Settlement Agreement pursuant to Rule 12.1 of the Commission’s Rules of Practice and Procedure, which provides that “settlements need not be joined by all parties.”

3. THE APPLICATION

3.1 On September 14, 2018, in the above-captioned matter, California American Water filed an *Application for Order Authorizing California-American Water Company (U-210-W) to Purchase Bellflower Municipal Water System’s Assets and for Related Approvals* (the

“Application”).¹ On January 22, 2019, California American Water filed an *Amended Application for Order Authorizing Sale and Purchase of Utility Assets* (“Amended Application”).²

3.2 The Amended Application requests the Commission approve the Asset Purchase Agreement,³ the transaction contemplated in that Agreement (“Acquisition”), and certain related matters. Specifically, the Amended Application requests a Commission Order that:

- (i) Approves the Asset Purchase Agreement’s terms and conditions.
- (ii) Expands California American Water’s Certificate of Public Convenience and Necessity (“CPCN”) so the company may assume all public utility responsibilities for the operation and ownership of the water utility operations in Bellflower Municipal’s current service area.
- (iii) Establishes the rate base of the acquired system, at the time of approval of a decision in this application, to be the full purchase price paid by California American Water for the Bellflower Municipal system’s assets covered by the Asset Purchase Agreement.
- (iv) Authorizes the creation of a memorandum account in the event that the Commission has not adopted a decision approving the Acquisition in time to allow California American Water to incorporate the results of the decision approving the Acquisition in California American Water’s 2019 General Rate Case (“GRC”). That memorandum account would capture the differences between revenues billed at current rates and revenues that would have been billed under the final rates effective January 1, 2021, if the Bellflower system were integrated for ratemaking following the decision in California American Water’s 2019 GRC. The associated revenue requirement will consist of items including, but not limited to, return on investment, ad valorem tax, depreciation, general office costs, other taxes and fees, and incremental operating expenses.
- (v) Allows California American Water immediate consolidation of the Bellflower system into the Los Angeles District for operational purposes.

¹ <https://docs.cpuc.ca.gov/PublishedDocs/Efile/G000/M230/K156/230156793.PDF>.

² <https://docs.cpuc.ca.gov/PublishedDocs/Efile/G000/M259/K972/259972546.PDF>.

³ The Asset Purchase Agreement refers to the purchase and sale agreement, entered November 27, 2017, between California American Water and the City, a copy of which was included as “Attachment 1” to the Amended Application.

- (vi) Allows California American Water to integrate the Bellflower system into the Los Angeles District (and Corporate Office) for ratemaking as of January 1, 2021. The rates for Bellflower customers from January 1, 2021 forward would be determined in the 2019 GRC filed on July 1, 2019.
- (vii) Establishes a transaction memorandum account, pursuant to Commission Standard Practice U-27-W, to track all transaction related costs with rate treatment determined in California American Water's subsequent GRC.
- (viii) Approves California American Water's request to allow tracking of costs of addressing any required environmental improvements and compliance issues in the already established memorandum account related to the same issues for the Dunnigan, Geyserville, and Meadowbrook acquisitions.
- (ix) Approves the Agreement between California American Water and the Bellflower-Somerset Mutual Water Company ("Bellflower-Somerset Mutual") for Transmission and Production of Water from the High Capacity Well ("HCW1"), executed October 20, 2017 (the "Wheeling Agreement").⁴

4. THE ASSET PURCHASE AGREEMENT

4.1 The Asset Purchase Agreement states that California American Water will acquire certain assets associated with Bellflower Municipal. That Agreement states that California American Water will pay to the City of Bellflower the Cash Purchase Price of \$17,000,000, in addition to an Adjustment Amount, if applicable.⁵

5. PROCEDURAL HISTORY

5.1 In May 2016, the Bellflower City Council approved a request for proposal to seek bids for the purchase of Bellflower Municipal. The City received four responses, including one from California American Water. A citywide election then occurred, where voters approved the decision to sell Bellflower Municipal to California American Water.

In September 2018, California American Water filed its initial Application. Cal Advocates filed a protest in October 2018. Following the January 7, 2019 Prehearing Conference, California American Water filed an Amended Application on January 22, 2019. In April 2019, the Commission issued a Scoping Memorandum,⁶ which was followed by a public

⁴ Quoting the Amended Application, pp. 2-4.

⁵ Asset Purchase Agreement, at Section 3.

⁶ <https://docs.cpuc.ca.gov/PublishedDocs/Efile/G000/M281/K394/281394942.PDF>.

participation hearing in May 2019.⁷ The Commission held evidentiary hearings on June 5 and 6, 2019, followed by the submission of Opening and Reply Briefs.

On March 30, 2020, the assigned Administrative Law Judge issued a Proposed Decision Denying the Application (“Proposed Decision”).⁸ Following issuance of the Proposed Decision, ex parte meetings took place between all parties and Commissioners and/or Commissioners’ staff. In June 2020, all parties filed Comments on the Proposed Decision, and in July 2020, all parties filed Reply Comments.

On July 8, 2020, California American Water filed a Motion to Reopen the Record.⁹ The Public Advocates Office opposed the Motion to Reopen the Record.¹⁰ On August 5, 2020, the Commission granted the Motion to Reopen the Record and ordered California American Water to submit further valuation evidence and ordered all parties to engage in settlement discussions.¹¹ That ruling was subsequently amended twice to, among other things, provide clarity on the procedure for California American Water to provide additional evidence.¹²

In July 2021, California American Water provided supplemental direct testimony that included a condition-based assessment and a system valuation.¹³ As of the date of this Settlement Agreement, Cal Advocates has not conducted discovery related to California American Water’s supplemental direct testimony. All parties elected to focus their efforts on settlement discussion with the assistance of an Administrative Law Judge assigned to facilitate Alternative Dispute Resolution (“ADR”).

6. SETTLEMENT DISCUSSIONS

6.1 All parties have made repeated attempts to settle this matter since 2019, including participation in ADR with an Administrative Law Judge (ALJ) acting as neutral mediator, which finally culminated in this Settlement Agreement between the Settling Parties.

6.2 These negotiations considered the interests of all parties to the proceeding and the Settlement Agreement represents a compromise of the Settling Parties regarding the issues related to the Acquisition and is supported by all parties to this proceeding.¹⁴

7. SETTLEMENT TERMS

⁷ <https://docs.cpuc.ca.gov/PublishedDocs/Efile/G000/M309/K592/309592452.PDF>.

⁸ <https://docs.cpuc.ca.gov/PublishedDocs/Efile/G000/M330/K684/330684003.PDF>.

⁹ <https://docs.cpuc.ca.gov/PublishedDocs/Efile/G000/M342/K946/342946750.PDF>.

¹⁰ <https://docs.cpuc.ca.gov/PublishedDocs/Efile/G000/M343/K324/343324767.PDF>.

¹¹ <https://docs.cpuc.ca.gov/PublishedDocs/Efile/G000/M344/K183/344183182.PDF>.

¹² <https://docs.cpuc.ca.gov/PublishedDocs/Efile/G000/M353/K226/353226724.PDF>;
<https://docs.cpuc.ca.gov/PublishedDocs/Efile/G000/M371/K711/371711947.PDF>.

¹³ <https://docs.cpuc.ca.gov/PublishedDocs/SupDoc/A1809013/3908/394802069.pdf>.

¹⁴ Not including the City of Bellflower as addressed in §3.3 above.

7.1 The Settling Parties reached a settlement based on the terms and conditions set forth in this section. In this section, the Parties agree on and respectfully request the Commission do the following:

(a) Adopt this Settlement Agreement as reasonable in light of the entire record, representing a reasonable compromise after careful review and discussion by all interested parties, consistent with law and in the public interest.

(b) Approve as just, reasonable, and in the public interest the \$17 million purchase price California American Water will pay to the City of Bellflower for all assets reflected in the Asset Purchase Agreement and the Amended Application.

(c) Establish that at the close of the sale, which is expected to occur within 60 days of Commission Approval of this Settlement Agreement and the purchase, the \$17 million purchase price will immediately be used as the rate base of the acquired system assets, increasing California American Water's rate base, in accordance with California Public Utilities Code section 2720(a).

(d) Recognize that immediately before or at the close of the Acquisition, the City has agreed to make \$5 million immediately available to California American Water for addressing costs relating to post-acquisition capital improvements to the former Bellflower Municipal system. That \$5 million will not reduce California American Water's \$17 million rate base addition resulting from the acquisition, except as provided for in standard ratemaking proceedings. Subject to the above provisions, that \$5 million will be accounted for as if it were grant funding received from the state at the time of the acquisition's close for ratemaking purposes – *i.e.*, amounts made available are to be recognized as contributions when made available, not when improvements are made.

(e) Recognize that Cal Advocates and the Commission are not parties to the agreement whereby the City is to make available \$5 million to California American Water for the purpose relating to post-acquisition improvements. The Settling Parties acknowledge and agree that the Commission's ratemaking proceedings will account for the \$5 million referenced in Section 7.1(d) as if it were a grant received at acquisition closing regardless of if or when the City makes the \$5 million available to California American Water.

(f) Approve adoption of a new service area map, included herewith as "Attachment 1."

(g) Approve expansion of California American Water's CPCN, so California American Water may provide public utility water service to the current and future customers in Bellflower Municipal's service territory, reflected in "Attachment 1" hereto.

(h) Authorize California American Water to file a Tier 1 Advice Letter to implement collection of the (1) Commission surcharge and (2) Utility Franchise Rate surcharge from the customers in the former Bellflower Municipal service area as well as a surcharge to collect any applicable franchise fees from those customers.

(i) Find the transaction is not subject to the California Environmental Quality Act.

(j) Authorize California American Water to, consistent with Section 12.11 of the Settlement between California American Water and the Public Advocates Office in A. 19-07-004, file a Tier 2 Advice Letter to incorporate Bellflower into authorized rates upon approval of the Settlement in A.19-07-004 and the approval of this Settlement Agreement in the above-captioned proceeding.

(k) Authorize California American Water to establish a transaction memorandum account, pursuant to Commission Standard Practice U-27-W, to track all transaction related costs, with rate treatment determined as part of California American Water's Test Year 2024 general rate case.

(l) Authorize California American Water to establish a contingency memorandum account to allow it to track lost revenue, in the event a decision in this proceeding is not issued prior to California America submitting its proposed application for its Test Year 2024 general rate case.

(m) Authorize California American Water to track costs to address any required environmental improvements and compliance issues, that involve the Bellflower Municipal service area, in the already-established memorandum account for the same issues in previous recent acquisitions.

(n) Approve the Agreement between California American Water and the Bellflower-Somerset Mutual Water Company for Transmission and Production of Water from the High Capacity Well No. 1 located at 9944 Flora Vista Street.

7.2 While this settlement incorporates the Asset Purchase Agreement in this matter, to the extent any provision of this Settlement Agreement is inconsistent with those documents, this Settlement Agreement supersedes them and shall control for the purposes of interactions between California American Water and Cal Advocates related to Commission ratemaking proceedings.

7.3 The Settling Parties agree that all testimony, reports, and other filings served between July 1, 2021 and the date of this Settlement Agreement should be admitted into evidence without cross-examination and request the Commission order the admission of such testimony, reports, and other filings into the record. The Settling Parties have confirmed with the City that the City does not oppose this Settlement Agreement or the resolution of this proceeding at the Commission in accordance with the terms of the Settlement Agreement.

8. CONDITIONS

8.1 Because this Settlement Agreement represents a compromise by them, the Settling Parties have entered into each stipulation contained in the Settlement Agreement on the basis that its approval by the Commission not be construed as an admission or concession by any party regarding any fact or matter of law in dispute in this proceeding.

8.2 The Settling Parties agree that no signatory to the Settlement Agreement assumes any personal liability as a result of this Settlement Agreement. The Settling Parties agree that the Commission has primary jurisdiction over any interpretation, enforcement, or remedy pertaining to this Settlement Agreement.

8.3 The Settling Parties agree that the Settlement Agreement is an integrated agreement such that if the Commission rejects or modifies any portion of this Settlement Agreement, each Settling Party must consent to the Settlement Agreement as modified, or any Settling Party may withdraw from the Settlement Agreement. Such consent to a Commission modified or altered Agreement may not be unreasonably withheld. As between the Settling Parties, this Settlement Agreement may be amended or changed only by a written agreement signed by all of the Settling Parties.

8.4 The Settling Parties agree to use their best efforts to obtain Commission approval of the Settlement Agreement. The Settling Parties shall request the Commission approve the Settlement Agreement without change and find the Settlement Agreement to be reasonable, consistent with the law, and in the public interest.

8.5 This Settlement Agreement may be executed in counterparts, each of which shall be deemed an original, and the counterparts together shall constitute one and the same instrument. Each of the Settling Parties hereto and their respective counsel and advocates have contributed to the preparation of this Settlement Agreement. Accordingly, the Settling Parties agree that no provision of this Settlement Agreement shall be construed against any Party because that Party or its counsel drafted the provision.

9. This Settlement Agreement supersedes any prior representations by the Settling Parties regarding each stipulation contained herein.

10. Each signatory to the Settlement Agreement is authorized and has authority to enter the Agreement.

11. The Settling Parties agree that pursuant to Rule 12.5 of the Commission's Rules of Practice and Procedure, adoption of this Settlement Agreement "does not constitute approval of, or precedent regarding, any principle or issue in the proceeding or in any future proceeding."

12. The Settling Parties agree that, if the Commission fails to approve this Settlement Agreement or an acceptable modified settlement agreement (see Section 13 below) by July 1, 2022, either of the Settling Parties may withdraw from this Settlement Agreement.

13. **COMMISSION MODIFICATION OF SETTLEMENT AGREEMENT**

13.1 If the Commission approves the Settlement Agreement with modifications, the Settling Parties request the Commission to provide a reasonable period for the Settling Parties to consider and respond to such modification.

13.2 If the Commission approves the Settlement Agreement with modifications, each Party shall determine no later than two business days before the deadline imposed by the Commission for acceptance of the modification whether that Party will accept the modification

and shall notify the other Settling Parties of its determination. If the Commission does not provide a deadline for acceptance of the modifications, then each Party shall notify the other Settling Parties within 10 days of issuance of the Commission decision approving the Settlement Agreement with modifications whether that Party will accept the modifications.

13.3 If any Party does not agree to accept the Commission-approved, but modified, Settlement Agreement, then the Settlement Agreement shall be deemed void.

CALIFORNIA-AMERICAN WATER COMPANY

Dated: November 22, 2021

By: 
Kevin Tilden, President

THE PUBLIC ADVOCATES OFFICE

Dated: November 22, 2021

By: 
Chris Ungson, Deputy Director for Communications
and Water